

Message Text

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ACTION EUR-12

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POUCHED FOR INFO TO ALL AMCONSULS IN CANADA

EO 11652 NA

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SUBJ WAGE AND PRICE CONTROLS OR VOLUNTARY RESTRAINT?

REFS A) OTTAWA 1697; B) OTTAWA 1743

1. SUBTLE HINTS THAT GOC MIGHT BE FORCED INTO SOME FORM OF NON-VOLUNTARY WAGE AND PRICE CONTROLS SURFACED MAY 8 WHEN FINMIN TURNER TOLD REPORTERS THAT "ONE WAY OR ANOTHER, WE'RE GOING TO HAVE TO BRING OUR PRICES AND OUR COSTS OF PRODUCTION BACK TO WITHIN A COMPETITIVE RANGE WITH THE U.S. AND WITH THE RATES OF OUR EUROPEAN AND JAPANESE COMPETITORS." TURNER WAS REPLYING TO QUESTIONS ON THE CLC REACTION (REFTEL B) TO "WORKING PAPERS" ON GOC PROPOSALS FOR WAGE AND PRICE GUIDELINES (REFTEL A) MADE PUBLIC BY TORONTO STAR MAY 5.

2. ASKED DIRECTLY ABOUT GOC INTENTIONS TO IMPOSE CONTROLS IF VOLUNTARY PROGRAM NOT ACCEPTABLE TO BUSINESS AND LABOR, TURNER REPORTEDLY TOLD PRESS HE HADN'T "EXPLORED OTHER POSSIBILITIES. I'M WAITING TO GIVE THIS VOLUNTARY PROCESS EVERY CHANCE." HOWEVER, HE SAID THAT "TIME WAS RUNNING OUT" AND CANADA FACED
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HUGE JOB LOSS IF TREND IN DETERIORATING COMPETITIVE

POSITION WAS NOT REVERSED.

3. EARLIER TURNER TOLD PARLIAMENT THAT MANY OF ITEMS CONTAINED IN CLC STATEMENT OF MAY 7, " AS IN THE CASE OF PROFESSIONAL FEES, FALL UNDER PROVINCIAL JURISDICTION AND COULD ONLY BE ENFORCED EITHER BY FIRM PROVINCIAL COMMITMENT, OR AS THE (CLC) PAPER SEEMS TO IMPLY, BY THE FEDERAL GOVERNMENT UNDER THE PEACE, ORDER AND GOOD GOVERNMENT CLAUSE." (SECTION 91 OF THE BRITISH NORTH AMERICAN ACT).

4. TURNER ALSO TOLD REPORTERES THAT HE WOULD BE MEETING WITH REPRESENTATIVES OF THE 10 PROVINCIAL PREMIERS ON MAY 9 AND HE WOULD INVITE CLC REPS TO MEET WITH HIM NEXT WEEK. HE INDICATED THAT FEDERAL/PROVINCIAL FIRST MINISTERS MEETING MIGHT BE CALLED BUT THAT HE WAS STILL AIMING FOR AN END OF MAY DEADLINE TO CONCLUDE CONSULTATIONS ON HIS VOLUNTARY RESTRAINT PROGRAM AND FOR BRINGING DOWN A NEW BUDGET.

5. COMMENT: ALTHOUGH CORPORATE AFFAIRS MINISTER OUELLET HAS TOLD AUDIENCES WITHIN PAST FEW WEEKS THAT CABINET WAS PREPARED TO REINTRODUCE LEGISLATION ON "PRICE GOUGING," TURNER'S REMARKS YESTERDAY WERE FIRST INDICATION THAT GOC MAY CONSIDER INFLATION TREND AND HIGH WAGE SETTLEMENTS TO BE SERIOUS ENOUGH PROBLEMS TO WARRANT OTHER ACTION GOING BEYOND VOLUNTARY RESTRAINT PROGRAM.

6. IT IS EXTREMELY DOUBTFUL THAT GOC WOULD CONSIDER USE OF SECTION 91 OF BNA SINCE CURRENT ECONOMIC SITUATION DOES NOT APPEAR TO CALL FOR SUCH DRASTIC MEASURE. INFLATION HAS ACTUALLY ABATED DURING PAST FOUR MONTHS (LATEST STATCAN FIGURES SHOW CPI RISE OF ONLY 0.5 PERCENT IN APRIL OVER MARCH FIGURE AND ON ANNUAL SEASONALLY ADJUSTED BASIS, CPI IS AT 7.4 PERCENT, DOWN CONSIDERABLY FROM ANNUAL RATE IN DECEMBER OF 14.6 PERCENT); WAGE DIFFERENTIAL BETWEEN U.S. AND CANADIAN WORKERS STILL FAVORS CANADIAN INDUSTRY ON COST BASIS (RECENT U.S. BUREAU OF LABOR STATISTICS FIGURES WIDELY REPORTED HERE AS SHOWING CANADIAN LABOR COSTS AT 82 LIMITED OFFICIAL USE

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PERCENT OF U.S. LEVEL); AND RECENT DROP BELOW PAR IN VALUE OF CANADIAN DOLLAR VIS-A-VIS U.S. DOLLAR SHOULD HELP CANADIAN EXPORTERS.

4. FROM TURNER'S RECENT STATEMENTS, ECHOED BY OTHER GOC MINISTERS DURING PAST FEW WEEKS, WE GET IMPRESSION THAT GOC IS SERIOUSLY CONCERNED ABOUT COMPETITIVE POSITION OF CANADA VIS-A-VIS ITS PRINCIPAL TRADING PARTNERS AND

THAT OFFICIALS BELIEVE HIGH WAGE SETTLEMENTS ARE PRICING CANADIAN GOODS OUT OF FOREIGN MARKETS AND ARE MAIN CAUSE OF DETERIORATING TRADE POSITION. HOWEVER, THIS MAY BE OVERSIMPLIFICATION OF PROBLEM SINCE, INTER ALIA, GENERAL SLACK IN U.S. ECONOMY, LOWER PRICES OF COMMODITIES, DECREASED OIL SHIPMENTS TO U.S., AND MUCH LOWER DEMAND FOR LUMBER HAVE ADVERSELY AFFECTED CANADIAN BALANCE OF TRADE.

8. TURNER'S MAY 8 REMARKS COULD BE PLOY TO GAIN ACCEPTANCE OF HIS VOLUNTARY PROGRAM BY BUSINESS AND ORGANIZED LABOR BY IMPLYING THREAT OF MANDATORY CONTROLS. HOWEVER, EVEN THIS SUBTLEST OF THREATS CREATES PROBLEMS FOR FEDERAL GOVERNMENT, WHOSE LEADERS WON ELECTION LAST SUMMER ON ANTI-WAGE-AND-PRICE-CONTROL PLATFORM AND HAVE CONSISTENTLY POINTED TO U.S. EXPERIENCE WITH CONTROLS AS EXAMPLE OF BAD ECONOMIC POLICY. TURNER WOULD HAVE TO EAT GREAT AMOUNT OF POLITICAL CROW IF HE SHOULD REVERSE POSITION NOW. SUCH REVERSAL CANNOT BE RULED OUT HOWEVER. IN FACT OTTAWA JOURNAL MAY 9 CARRIES FRONT-PAGE REPORT ATTRIBUTED TO "INFORMED GOVERNMENT SOURCES" THAT MAY 8 CABINET MEETING STUDIES POSSIBILITY OF IMPOSING MANDATORY CONTROLS AND THAT GOC COULD ACT "IN VERY NEAR FUTURE."
PORTER

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